

---

# Board Action Bulletin

---



*Prepared by the Office of Public & Congressional Affairs*

## **NCUA BOARD ACTIONS TAKEN FEBRUARY 19, 2004**

### ***Community charter conversion***

The NCUA Board approved, by a two to one vote, the request of Tennessee Valley Federal Credit Union in Chattanooga, Tennessee, to convert from a multiple group to a community-based field of membership to serve the people who live, work, worship, volunteer, or attend school, and businesses and other legal entities located in the Tennessee counties of Bledsoe, Bradley, Grundy, Hamilton, Marion, McMinn, Meigs, Polk, Rhea or Sequatchie and the Georgia counties of Walker, Catoosa or Dade.

### ***Final conversion rule requires additional disclosure***

The NCUA Board approved a revision to Part 708a, Conversion of Insured Credit Unions to Mutual Savings Banks, to ensure a converting credit union discloses adequate information to its members.

When notifying members of intent to convert, the credit union must disclose any economic benefit a director or senior management official may receive in connection with the conversion. The disclosure must also include how conversion to a mutual savings bank will affect members' voting rights, and how subsequent conversion to a stock institution may affect ownership interests.

This amendment serves to provide members with additional information to make informed decisions about a conversion without increasing regulatory burden, and it also clarifies what NCUA expects to be included in the notice to members.

### ***Final rule adds borrowing limit waiver and surety/guarantor authority***

The NCUA issued final rules §701.2 and §741.2 permitting federally insured, state-chartered credit unions (FISCUs) to apply for a waiver from the maximum borrowing limit of 50 percent of paid-in and unimpaired capital and surplus. The rule change provides FISCUs more flexibility by allowing them to apply for a waiver up to the amount permitted under state law. For federal credit unions (FCUs) however, the 50 percent borrowing limit is statutory and therefore a waiver is not possible.

The final rule change also allows a FCU to act as a surety or guarantor on behalf of its members. The rule establishes certain requirements to ensure that FCUs, and FISCUs permitted under state law to act as a surety or guarantor, are not exposed to undue risk.

### ***Simplified share insurance rule retains parity with FDIC***

The NCUA Board adopted, with a 60-day comment period, an interim final insurance rule change to Part 745 simplifying coverage and maintaining parity with recent deposit insurance changes adopted by the Federal Deposit Insurance Corporation.

The interim rule eliminates language that limits insurance coverage where the interest of the beneficiary is subject to a defeating contingency in a living trust agreement. As amended, share insurance coverage of up to \$100,000 is provided per qualifying beneficiary who would become the owner of assets in the living trust upon death of the account owner.

Effective April 1, 2004, the interim final rule achieves two objectives. It simplifies the existing rule and provides consistency in how insurance coverage is determined for all types of revocable trust accounts. As amended, both living trust accounts and “payable on death” accounts will have insurance coverage calculated in the same fashion. In both cases, coverage is based on the interest of the beneficiaries who will receive the account funds upon death of the owner, determined as of the date of the credit union’s failure, regardless of any contingencies or conditions affecting those interests. The only exception is when the interest of one beneficiary is contingent upon the death of another beneficiary. Even with this amendment, such a contingency will operate to defeat separate insurance coverage.

The amendment provides credit unions and their members with a better understanding of share insurance coverage rules, and it helps eliminate the present confusion surrounding living trust account coverage. The amendment also reduces the recordkeeping burden on credit unions by eliminating a requirement the credit unions maintain a copy of the living trust agreement within its records.

**Votes are unanimous unless otherwise noted**